

# COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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TO: Supervisor Don Knabe, Chairman

Supervisor Gloria Molina Supervisor Yvonne B. Burke Supervisor Zev Yaroslavsky Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley

Auditor-Controller

SUBJECT: SURVEY OF COUNTY CONTRACTORS THAT HAVE THE AUTHORITY

TO AUTHORIZE COUNTY PAYMENTS – FINAL STATUS REPORT

On January 6, 2004, your Board directed my office to report back in February 2004, and quarterly thereafter, on the status of our review of County departments and districts with contractors that have the ability to authorize and approve County warrants.

As previously reported to you, six departments self-reported that they have contracts among 15 programs where the contractors have the ability to authorize and approve County warrants (see Attachment I). We have previously reported on seven of the programs disclosed in the response to the survey. We also advised you that of the eight remaining programs, seven are County contracts with third party administrators (TPAs). Since these contractors only have access to a checking account and not the County Treasury pool, we concluded that these programs pose less financial risk to the County. We intend to add these programs to our future audit plans and will report on them individually as we complete our reviews.

The remaining program is the Department of Public Social Services (DPSS) CalWORKs Stage 1 Child Care program, which is the subject of this final status report.

#### Background

DPSS began contracting for CalWORKs Stage 1 Child Care services in December 1998 and has contracted with the existing 13 Alternative Payment Program agencies (APPs) since January 2001. The APPs are responsible for determining program eligibility, assisting parents in selecting a licensed, or license exempt child care provider and issuing provider payments. The APPs issue child care payments from their own checking accounts which are funded with a cash flow loan provided by DPSS. Once a

provider payment is made, the APP submits a claim for reimbursement to DPSS to replenish the cash flow loan. The 13 APPs issue approximately \$11.8 million in child care payments each month. We reviewed the internal controls over the payment systems and payment processes at two APPs.

Like the TPAs, the Stage 1 Child Care program presents less risk of loss to the County since the APPs do not have access to the County Treasury pool. However, we chose to review this program now, rather than waiting because previously a payment fraud occurred in this program in which two employees of an APP generated approximately \$172,000 in fraudulent provider payments. Payment system deficiencies and internal controls were determined to be the primary causes of the fraud.

#### **Review Summary**

Our review disclosed that conditions exist at both APPs that could facilitate fraudulent use of program funds. Additionally, neither DPSS nor the APPs has conducted a post-implementation review of the payment systems and processes to verify that adequate controls are in place and functioning.

To ensure that system weaknesses are corrected, the Department should retain a contractor through the Auditor-Controller Master Agreement to conduct a detailed internal control review of all 13 APPs payment systems. The contractor should also perform a follow-up review to ensure that the APPs appropriately implement recommended corrective actions. We do not recommend bringing the function in-house because to do so would impede the County's "seamless" service delivery system of child care, including CalWORKs Stages 2 and 3, which are related to Stage 1 Child Care, but are administered by the California Department of Education.

### <u>Department of Public Social Services - CalWORKs Stage 1 Child Care Program</u>

#### Internal Controls

Each of the two reviewed APPs has its own in-house payment system from which it generates Stage 1 child care payments. Our review included interviewing APP staff, reviewing payment issuance procedures, evaluating the adequacy of the separation of duties and evaluating the sufficiency and appropriateness of system access controls. Our review disclosed that conditions existed at both APPs that could compromise the integrity of child care payment processes. For example, at both APPs a number of non-management level employees have the ability to add and change cases and add, delete and change providers and provider information. These conditions could result in the addition of a fictitious case to the APPs payment system along with the addition of a fictitious provider, to which fraudulent payments could be made.

In addition, one APP was generating Child Care payments throughout the month, but distributing them on the 25<sup>th</sup> of each month. Pending their distribution, the checks are not kept in a secure location, and there are no procedures in place to verify that all

checks generated are ultimately transferred to the APP's mail room for distribution and mailed to the appropriate recipients.

DPSS did not specify in the contracts with the APPs any internal control requirements to which the payment systems should adhere. Additionally, neither DPSS nor the APPs has conducted a post-implementation review of the payment systems and processes to verify that adequate controls are in place and functioning.

The Department should retain a contractor through the Auditor-Controller Master Agreement to conduct a detailed internal control review of all 13 APPs payment systems. The contractor should also perform a follow-up review to ensure that recommended corrective actions have been adequately implemented by the APPs.

At this time, we do not recommend that the Department bring the function of issuing CalWORKs Stage 1 Child Care payments in-house because one of the primary reasons for contracting for this function was to provide a "seamless" service delivery system in which WTW clients receiving CalWORKs Stages 2 and 3 Child Care (which are non-County programs offered once a client's work activity and child care stabilize) would have one point of contact for all child care needs.

Once the review of the controls over the APPs payment systems is conducted and the implementation of corrective action measures has been verified, there should be adequate controls to ensure the integrity and propriety of Stage 1 Child Care payments.

Comments and recommendations for improvement of DPSS' monitoring of payments made by the APPs are included in the next section of this report.

### Recommendation

1. DPSS contract for an independent review of the controls over the payment systems of all 13 APPs including a follow-up review to ensure that all recommendations have been adequately implemented by the APPs.

#### **DPSS Monitoring of CalWORKs Stage 1 Child Care Payments**

The Department is monitoring the Stage 1 Child Care program to assess the accuracy of provider payments made by the APPs. However, we noted that the specific procedures employed to perform these reviews are not formally documented in a monitoring instrument. To ensure consistency in the approach to monitoring payments made by the APPs, and to establish a written record for future periods, DPSS should incorporate the specific procedures used in its monitoring of payments made under the contract into a formal monitoring instrument.

We also noted that the Department intends to enhance its monitoring by incorporating procedures for performing direct contacts with both CalWORKs participants and child care providers as a further means of validating payment and other case information.

This approach has been used extensively by the Auditor-Controller's contract monitoring staff and has been very effective in identifying instances where contractors have billed for services that were not provided.

#### Recommendation

2. DPSS incorporate the specific procedures used in its monitoring of payments made under the contract into a formal monitoring instrument, and enhance these procedures to include direct client and provider contacts.

If you have any additional questions, please contact me, or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR: MM

#### Attachment

c: David E. Janssen, Chief Administrative Officer Bryce Yokomizo, Director, Department of Public Social Services Violet Varona-Lukens, Board of Supervisors Executive Office Public Information Office Audit Committee

## Schedule of Review Status Countywide Survey of Contractors Authorizing County Payments

#### Review Program/Activity/Function (Responsible Department) Status Contractor Name(s) Refugee/Immigrant Training and Employment Program (RITE) - (DPSS/DCSS) 1. Completed Various 2. Greater Avenues for Independence (GAIN) - (DPSS) Completed MAXIMUS and ACS State and Local Solutions 3. Refugee Employment Program - (DCSS) Completed 9 Community Based Organizations LAHSA 4. Homeless Prevention Services - (DPSS) Completed 5. Capital Projects Management - (DPW) Completed Daniel, Mann, Johnson and Mendenhall + Harris 6. Fiscal Services Agent Contract - (CSSD) Completed ACS State and Local Solutions 7. Bad Check Diversion Program - (DA) Completed American Corrective Counseling Services, Inc. 8. CalWORKs Stage 1 Child Care - (DPSS) Completed 13 Alternative Payment Providers 9. Pension Savings Plan - (DHR/CAO) Audit Plan Management Applied Programming 10. Dependent/Health Care Spending Account - (DHR) Audit Plan Mellon - Ceridian Tristar Risk Management Services, Cambridge Integrated Audit Plan 11. Workers' Compensation Claims Administration - (CAO) Services Group, Inc., Crawford Company 12. Audit Plan Long Term Disability Claims Administration - (CAO) VPA, Inc. 13. Auto and General Liability Claims Administration - (CAO) Audit Plan Carl Warren and Company 14. Medical Malpractice Liability Claims Administration - (CAO) Audit Plan Octagon Risk Services, Inc. 15. Deferred Compensation Plans - (CAO) Audit Plan Great West Life and Annuity